

Message Text

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ACTION EA-12

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TAGS: EFIN, TW
SUBJ: US DOLLAR FORWARD MARKET: STILL MOVING SLOWLY

REF: TAIPEI 5446

1. THE CENTRAL BANK OF CHINA (CBC) ANNOUNCED THAT TRANS-ACTIONS IN THE US DOLLAR FORWARD MARKET FOR THE PERIOD FROM AUGUST 11 THROUGH AUGUST 23 TOTALLED US DOLS 143 MILLION. EXPORTERS SELLING US DOLLARS ACCOUNTED FOR US DOLS 129.8 MILLION OF THE TOTAL, WITH DISTRIBUTION AS FOLLOWS: 1 - 30 DAYS: US DOLS 39 MILLION; 31 - 60 DAYS: US DOLS 37.1 MILLION; 61 - 90 DAYS: US DOLS 26.9 MILLION; 91 - 180 DAYS: US DOLS 26.5 MILLION. IMPORTERS BOUGHT US DOLS 13.3 MILLION, NEARLY ALL OF IT SHORT-TERM (1 - 30 DAYS).

2. A CBC OFFICIAL TOLD EMBASSY THAT TWO CHANGES HAVE BEEN MADE IN THE OPERATING RULES FOR THE US DOLLAR FORWARD MARKET, EFFECTIVE AUGUST 28: (1) MERCHANTS WILL BE ALLOWED TO USE INSTRUMENTS OTHER THAN CASH -- SUCH AS SHORT-TERM MONEY MARKET INSTRUMENTS -- FOR THE 5 PERCENT DEPOSIT REQUIRED FOR EACH TRANSACTION (2) THE MINIMUM TRANSACTION AMOUNT, US DOLS 5000, HAS BEEN ABOLISHED.
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EACH OF THESE CHANGES IS THE RESULT OF COMPLAINTS FROM LOCAL MERCHANTS. TRADERS WOULD LIKE TO DO AWAY WITH THE 5 PERCENT DEPOSIT ENTIRELY; SOME SPECULATE THAT ITS PURPOSE -- IN ADDITION TO ENSURING COMPLIANCE WITH FORWARD EXCHANGE CONTRACTS -- IS TO SOP UP LIQUIDITY IN THE ECONOMY.

3. RAINIER BANK'S TAIPEI BRANCH WILL HOLD 5 SEMINARS IN SEPTEMBER ON THE OPERATION OF FORWARD CURRENCY MARKETS. LOCAL COMPANY AND CHINESE BANK REPRESENTATIVES WILL BE INVITED. THE SEMINAR WILL BE CONDUCTED BY THE HEAD OF RAINIER BANK'S SINGAPORE BRANCH. RAINIER'S TAIPEI MANAGER TOLD EMBASSY THAT HE HAS RECEIVED MANY INQUIRIES FROM LOCAL BANK FOREIGN EXCHANGE DEPARTMENT MANAGERS CONCERNING THE OPERATION OF A FORWARD CURRENCY MARKET, EVEN THOUGH RAINIER, AS A REPRESENTATIVE OFFICE, CANNOT PARTICIPATE IN THE MARKET. GROC-CONNECTED ORGANIZATIONS SUCH AS THE CHINA EXTERNAL TRADE AND DEVELOPMENT COMPANY ALSO PLAN TO HOLD EDUCATIONAL SEMINARS.

4. COMMENT: MOST TRADERS, AS WELL AS LOCAL BANKERS, ARE STILL UNCLEAR AS TO HOW THE FORWARD CURRENCY MARKET OPERATES, AND THE 5 PERCENT DEPOSIT RULE SERVES TO DISCOURAGE THOSE WHO DO UNDERSTAND ITS WORKINGS. CLEARLY, THE NEW FORWARD MARKET HAS NOT YET BECOME A VIABLE MEANS OF HEDGING AGAINST FUTURE EXCHANGE RATE FLUCTUATIONS.
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